



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

119080

HUMAN RESOURCES
DIVISION

B-208199

JULY 21, 1982

The Honorable Charles E. Bennett
House of Representatives



119080

Dear Mr. Bennett:

Subject: Proposed Move of the Veterans Administration's
Florida Loan Guaranty Division from Jacksonville
(GAO/HRD-82-85)

Your March 23, 1982, letter asked us to review the Veterans Administration's (VA's) proposal to move its Florida Regional Office's Loan Guaranty Division from Jacksonville to St. Petersburg. Before we received your letter, we had made a limited review of the proposed move at the request of the Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations. This report includes data that we had provided to the Subcommittee. It also includes additional data on potential costs and savings relating to the move which VA's proposal did not include. While the summary we provided the Subcommittee mentioned that such costs and savings were not included in VA's proposal, due to time limitations, we did not attempt to quantify them.

We found that VA underestimated the costs and overestimated the savings associated with the proposed move. However, it still appears that the move would result in savings to the Government.

These matters are discussed in more detail below.

INTRODUCTION

On February 8, 1982, VA notified the Congress that it planned to move its Florida Loan Guaranty Division from Jacksonville to its St. Petersburg Regional Office. VA said that relocation would save about \$589,000 per year by reducing overhead costs and staffing requirements. VA said the total cost of relocation was about \$998,000 and that the relocation costs, net of savings, were included in the 1983 budget. VA provided the Congress with a "Special Study of Possible Relocation of Loan Guaranty Division" which included details on relocation costs and savings. (See enc. I for VA's summary of relocation costs and savings.)

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VA reported 136 employees on duty as of February 26, 1982. VA estimated that 5 would remain in Jacksonville after the move and that 36 would leave the agency before the relocation. Of the 95 remaining employees, 60 were expected to move, 10 to retire because of the move, and 25 would be terminated and be entitled to severance pay.

We visited VA's Florida Regional Office and reviewed the data that supported VA's study. We interviewed VA officials and reviewed VA records relating to the proposed move. We also briefly visited the Loan Guaranty Division where we met with VA officials and the president and other members of the union which represents employees of the Division and reviewed data which they provided.

We concentrated on the major items of costs and savings, specifically, (1) severance pay and relocation costs which were about 94 percent of VA's estimated costs for the move and (2) space and salary savings which were about 91 percent of VA's estimated annual savings.

To estimate retirement costs and the costs of employee benefits, we used factors specified by the Office of Personnel Management and the Office of Management and Budget, respectively. To estimate unemployment compensation and lump-sum leave payments, we used data from a July 1981 Congressional Budget Office study entitled "Cost of Potential Layoffs Under the Administration's Federal Employment Reduction Program." The study acknowledged that any estimate of layoff costs is highly uncertain since actual data are not available on the salaries, ages, and years of service of employees who may be laid off. Similar reservations apply to our cost estimates.

It is not possible to determine precisely the costs and savings related to the proposed move. Most costs are based on estimates of the number of employees who will or will not move and how they will terminate employment if they do not move. Most savings are based on management judgment as to the number of positions that would be eliminated if the Loan Guaranty Division were consolidated with the regional office. Therefore, we are generally expressing our views on whether VA's estimates are reasonable rather than correct.

COST OF MOVE

VA estimated costs of \$998,210, including \$35,000 for relocating records and employees from VA organizations other than the Loan Guaranty Division. Of the \$963,210 related to the Division, \$801,000 was for moving employees and \$136,000 was for terminal leave/severance costs. The remaining \$26,210 was for relocating and installing equipment.

The \$35,000 that did not relate to the Loan Guaranty Division should not be included in VA's estimate for relocating the Division. We did not verify the data supporting the \$26,210 for relocating and installing equipment because these costs were relatively insignificant.

Terminal leave/severance costs

Employees who terminate employment rather than move are entitled to severance pay based on their years of creditable civilian service. The period of eligibility for severance pay is increased for employees over 40 years of age. Total severance payments may not exceed 1 year's pay. An employee eligible for an immediate annuity is not entitled to severance pay, and severance pay is discontinued if a person is reemployed by the Government.

VA's estimate of \$136,000 for terminal leave/severance costs is based on 25 employees receiving an average of \$5,440. We were advised that the \$5,440 was based on an average of the severance entitlement calculated for 10 employees. However, at the time of our visit, VA could find the calculations for only 3 of the 10 employees. The costs for the three employees did not include terminal leave (lump-sum payments for accrued annual leave).

We estimated average severance pay entitlement for the employees of the Loan Guaranty Division using VA's Quarterly Filled and Vacant Positions Report (a personnel listing) as of December 31, 1981. We excluded employees who appeared to be eligible for retirement or would be eligible for retirement about the time of the proposed move. We (1) used annual salary rates as of December 31, 1981, (2) computed years of service to the nearest year as of October 1, 1982, and (3) added 1 year to the age shown on the VA report. We did not attempt to determine the extent to which periods of military service for which severance pay would not be payable were included in the employees' years of service.

We calculated an average severance entitlement of about \$8,800. However, the entitlement varied by grade, and as discussed further, on the basis of the grades of employees less likely to relocate, VA's cost estimate of \$5,440 does not appear out of line. For employees in Grade 6 and below, severance entitlement averaged about \$4,500 and, based on a union survey of employees, ¹/ it appears more likely that employees in the lower grades will not move. In

¹/Our analyses of questionnaire data are based on 63 questionnaire responses provided by the union president. Other data indicate that 64 employees responded. The absence of one response has no significant impact on our analyses.

addition, employees who receive severance pay may find other Federal employment before their entitlement to severance pay is exhausted.

The number of employees who will receive severance pay cannot be verified, but VA's estimate does not appear unreasonable. Overall, VA's estimate of severance costs appears reasonable.

Lump-sum annual leave payments

Federal employees separated from Government service receive a lump-sum payment for their unused annual leave. The amount is based on the salary received at the time of separation and the number of days of unused leave accumulated.

Employees would be entitled to lump-sum payments for any annual leave accrued at the time they separated from service even if the move did not take place. However, we have included payments for leave as costs of relocating the Loan Guaranty Division because such payments represent outlays that will be made about the time of the move rather than at indefinite future dates.

We estimated lump-sum leave payments by using the Congressional Budget Office's estimated average amount of \$1,400 and multiplying it by the 35 employees VA estimated would terminate or retire early rather than relocate. This resulted in an estimated \$49,000 for lump-sum annual leave payments.

Moving costs

VA estimated moving costs of \$801,000 based on 60 employees moving at an average cost of \$13,350. VA officials could not locate the data used to develop the average cost. However, they provided us with data that showed an estimated cost of \$13,966 for moving an employee with three dependents from Jacksonville to St. Petersburg. The \$13,966 consisted of:

- \$2,440 for temporary lodging for 30 days, the maximum period allowed.
- \$200 for miscellaneous moving expenses, the amount allowed without supporting evidence of expenses for an employee with immediate family.
- \$2,826 for the transportation and temporary storage of household goods based on the maximum allowance of 11,000 pounds--employees without immediate families are generally limited to 7,500 pounds.

--\$8,000 for expenses relating to the sale of a residence--
the maximum allowed is the lesser of \$8,000 or 10 percent
of the sale price.

--\$500 for expenses relating to the purchase of a residence--
the maximum allowed is the lesser of \$4,000 or 5 percent
of the purchase price.

About 70 percent of the respondents to the union questionnaire said that they owned homes and less than half of the respondents who said that they would move said they owned homes. However, a greater percentage of employees in higher grades said they owned homes. A high percentage of the higher graded personnel who did not participate (supervisors were not sent questionnaires) in the survey may also own homes.

VA provided us with data on moving expense payments related to people who had relocated to or from the Florida Regional Office. The highest reimbursement was under \$13,000.

We were advised by a VA headquarters official that VA does not have data on the average cost to move an employee. The average relocation cost for General Accounting Office employees relocating within the United States is about \$10,000.

We believe that VA's estimate is probably high but not unreasonable. However, as discussed later, VA revised its estimate to \$10,000 per employee.

Cost of early retirements

Employees are eligible for early (involuntary) retirement if their positions are abolished or transferred to a location outside their commuting area. To retire under early retirement provisions, an employee must be at least age 50 with 20 years of service or any age with 25 years of service.

VA estimated that there would be 10 early retirements resulting from the relocation. VA did not include any cost for these early retirements because retirement benefits are not paid by VA, but rather are paid through the civil service retirement system.

The civil service retirement system incurs additional costs when employees retire early. The Office of Personnel Management has determined that each early retirement creates a liability of 130 percent of the employee's final salary. The additional cost to the retirement system is caused primarily by early retirees receiving immediate benefits, with little or no reduction.

The additional costs to the retirement system for 10 employees would be about \$260,000 based on 130 percent of the average Loan Guaranty Division salary as of December 31, 1981.

We did not attempt to calculate additional retirement costs for persons eligible for retirement under normal retirement provisions who might retire earlier than they would otherwise because of the relocation.

Unemployment compensation

Unemployment compensation is payable to Federal employees in accordance with practices of the State in which they reside. The maximum benefit in Florida is \$125 per week and a person would have to have earned an average of \$250 a week to receive the maximum benefit. VA did not include any costs for unemployment compensation.

The Congressional Budget Office assumed that 92 percent of the employees involved in a reduction-in-force who did not retire would receive average weekly unemployment benefits of \$102 for 15.9 weeks. Using the assumptions for the 25 employees VA estimated would terminate rather than move, we calculated an estimated cost of \$40,545 for unemployment compensation.

Training costs

We did not attempt to estimate costs for training replacements for persons who terminated employment because we do not know what the future loan guaranty workload will be or the job skills of the terminated employees.

A VA official said that, if the Loan Guaranty Division's workload continues at its present low level, training costs would not be significant.

SAVINGS EXPECTED FROM MOVE

VA estimated that the move would result in annual savings of \$589,188, consisting of \$355,140 in personnel; \$180,543 in office space; and a total of \$53,505 in reduced travel, telephone, and teletype costs.

We did not verify the data supporting the savings of \$53,505 because the amounts were relatively insignificant.

Space

Most of VA's estimated space savings of \$180,543 are attributed to consolidating VA activities in the Federal Office Building in St. Petersburg. Most of the savings would result from a program of locating files in less costly space outside the Federal Office Building, an action that could be taken irrespective of the proposed relocation. We estimate that the space savings applicable primarily to relocating the Loan Guaranty Division would be about \$23,000. Thus, VA's estimated savings should be reduced by about \$158,000.

Personnel

The largest estimated savings from moving from Jacksonville relates to eliminating 27 positions at an estimated annual savings of \$355,140. Some of these personnel savings appeared reasonable. However, others were questionable.

In some cases it appeared that savings could be achieved even if the move were not made. For example, VA estimated that it could save six positions in its telephone unit which handles phone inquiries. Some savings would result from eliminating an unknown number of duplicate calls, e.g., calls to St. Petersburg where people are referred to Jacksonville. However, it appeared that much of this savings will be achieved by reducing the level of service provided (more unanswered phone calls).

An estimated six positions would be eliminated by reducing staffing levels at the regional office and detailing people among the various divisions to accommodate fluctuating workloads. The over 200-mile separation between Jacksonville and St. Petersburg limits VA's ability to detail employees. No specific positions have been identified for elimination. The concept appears reasonable and we have no basis to support or refute the amount of such savings.

In a few cases, the savings represent unrelated functions of less than 1 staff year. For example, one-fourth of a staff year in mail processing. It is difficult to translate such part-person savings into eliminated positions.

To recognize the uncertainty of the extent of VA's personnel savings or their direct relationship to the move from Jacksonville, we have adjusted the personnel savings to reflect what they would be if:

- Five of the six telephone answering unit positions were not included because savings could be achieved in the unit by accepting a lower level of service even if the Loan Guaranty Division were not moved (reduction \$79,610).
- Three of the 6 staff years saved due to improved ability to accommodate fluctuating workload were not included due to the highly subjective nature of this estimate (reduction \$35,326).
- One of the staff years saved that involved only a portion of several individuals' work was not included because it is unclear what position could be eliminated if only parts of staff years were reduced (reduction \$10,235).

The adjustments total \$125,171.

VA calculated its personnel savings based on the first step of the pay grade involved and did not include any cost for employee benefits. The Office of Management and Budget estimates that, for calculating the costs of Government operations, personnel costs should be increased by 26 percent consisting of

- 20.4 percent for the Government's costs for future retirement benefits,
- 3.7 percent for the Government's costs for life and health insurance benefits, and
- 1.9 percent for the Government's costs for workmen's compensation, bonuses and awards, and unemployment programs.

After adjusting VA's personnel savings to reflect the positions we excluded, we calculated personnel savings based on the Loan Guaranty Division's average salaries for the grades involved, excluding potential retirees, rather than the first step of such grades. We then added 26 percent to reflect the costs of employee benefits. These adjustments resulted in an increase of \$83,355 to VA's estimate for personnel savings.

OUR ESTIMATE OF COST AND SAVINGS

As previously noted, there is much uncertainty about the (1) actions employees will take if the Loan Guaranty Division is moved and (2) estimates of positions to be saved due to consolidation. Notwithstanding these uncertainties, we reviewed VA's estimates of costs and savings, made adjustments we considered appropriate, and computed revised cost and savings estimates as follow.

Estimated costs

Cost per VA study:	\$ 998,210
Plus: Cost of early retirements	260,000
Cost of unemployment compensation	40,545
Cost of lump-sum annual leave payments	<u>49,000</u>
	1,347,755
Less: Cost related to moving files and consolidating activities already in St. Petersburg	<u>-35,000</u>
	<u>1,312,755</u>

Estimated annual savings

Savings per VA study:	589,188
Less: Space savings not attributable to moving from Jacksonville	158,000
Reduction of positions eliminated by move	<u>125,171</u>
	306,017
Plus: Additional savings due to using average salaries and including employee benefits	<u>83,355</u>
	<u>\$ 389,372</u>

The net effect of our adjustments is to extend by about 1.7 years the point at which VA's savings will exceed costs if the Loan Guaranty Division is moved. After our adjustments it would be 3.4 years before the savings from the move equaled the costs of the move. Based on VA's estimate the costs of the move would equal the savings in 1.7 years.

AGENCY COMMENTS

On July 1, 1982, VA commented on a draft of this report. (See enc. II.) VA said that our report basically supports its position. The only difference being the estimated time required for savings to exceed initial expenditures.


VA revised its estimated costs and savings based on our adjustments. However, VA stated that it did not necessarily agree with all our adjustments--especially the \$260,000 we estimated for the cost of early retirements. VA also reduced its relocation cost estimate by \$201,000 by changing its average employee moving expenses from \$13,350 to \$10,000. VA said it used our figure of \$10,000 per employee because VA does not have data on the average cost to move an employee.

VA's revised costs and annual savings are \$1,111,755 and \$389,372, respectively. Based on these figures, the savings from the relocation would equal its costs in about 2.8 years.

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As arranged with your office, in accordance with our normal distribution procedures, copies of this report have been sent to the Congress; VA; and the Director, Office of Management and Budget. Copies will be made available to other interested parties upon request.

Sincerely yours,


Gregory J. Ahart
Director

SUMMARY OF RELOCATION COSTS
AND ANNUAL SAVINGS PROJECTION
FROM THE RELOCATION OF
LOAN GUARANTY DIVISION

Total Relocation Cost Summary

Translocation of equipment	\$ 22,535
Installation of telephones	3,675
Terminal leave/severance	136,000
Translocation of employees	<u>801,000</u>
Total	963,210

Related Costs

Transfer of adjudication files to remote 30,000 square foot location	20,000
Consolidation of finance and VR&C divisions in the federal office building	<u>15,000</u>
Total	35,000

Annual Cost Savings

Teletype	12,595
Telephone	20,910
Employee travel	20,000
Excess positions	355,140
Space	<u>180,543</u>
Total annual savings	<u>\$589,188</u>

Source: VA's Special Study of Possible Relocation of Loan Guaranty Division (p. 22).

Office of the
Administrator
of Veterans Affairs

Washington, D.C. 20420



**Veterans
Administration**

JULY 1- 1982



Mr. Gregory J. Ahart
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Ahart:

The findings and conclusions in the May 27, 1982, draft report, "Proposed Move of the Veterans Administration's Florida Loan Guaranty Division from Jacksonville," basically supports the Veterans Administration (VA) position; the only difference being the estimated time required for savings to exceed initial expenditures. The General Accounting Office (GAO) made several adjustments to the VA's original costs and savings estimate which resulted in extending the projected payback period from 1.7 to 3.4 years.

Using the figures shown in the GAO report as a guide, the Jacksonville Loan Guaranty Division relocation cost was recalculated. Originally, the average employee relocation cost was estimated as \$13,350 per employee. Since the VA does not have data on the average cost to move an employee, GAO's figure of \$10,000 per employee was used. This resulted in a reduction of \$201,000 for employee relocation expenses.

With the exception of the reduction in relocation expenses, the following chart includes the cost adjustments made by GAO. Other GAO adjustments have been retained although we do not necessarily agree with all of them, particularly the \$260,000 addition to "Cost of early retirements."

Estimated Costs

Cost per VA study	\$ 998,210
Plus: Cost of early retirements	260,000
Cost of unemployment compensation	40,545
Cost of lump-sum annual leave payments	49,000
	<u>\$1,347,755</u>
Less: Cost related to moving files and consolidating activities already in St. Petersburg	\$ 35,000
Cost reduction of relocation expenses based on GAO relocation average	<u>201,000</u>
Adjusted Total Cost	\$1,111,755

Estimated Annual Savings

Savings per VA study	\$589,188
Less: Space savings not attributable to moving from Jacksonville	158,000
Reduction of positions eliminated by move	<u>125,171</u>
	\$306,017
Plus: Additional savings due to using average salaries and including employee benefits	<u>83,355</u>
	\$389,372

Dividing the "Adjusted Total Cost" by the estimated annual savings reduces GAO's estimated payback period from 3.4 to 2.8 years. Although variations in cost estimates may be debatable, GAO and VA agree that transferring the Jacksonville Loan Guaranty Division to the St. Petersburg Regional Office will result in savings to the Government.

Thank you for the opportunity to review this report.

Sincerely,



ROBERT P. NIMMO
Administrator